



United States  
Department of  
Agriculture

Foreign  
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FROM: Frank A. Padovano  
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SUBJECT: Iraq--Country Risk Assessment for FY 1991

TEID has updated the country profile on Iraq in response to your request. Based on our analysis, TEID has established a final letter grade of D for Iraq and recommends a fiscal year 1991 Exposure Guideline of \$200 million. The final grade represents no adjustment to the initial grade of D established by the Ratings Model Composite Grade and matches the Economist Intelligence Unit grade of D.

This grade reflects the sharp deterioration in diplomatic relations between Iraq and Western countries over the past six months, Iraq's history of payment delays, and its refusal to negotiate with the IMF. In addition, TEID recommends that any allocation to Iraq be contingent on two conditions: 1) Satisfactory resolution of the current government investigation into the Iraqi GSM 102 program, and 2) Indications from Iraq that it intends to pay its arrearages with the Export-Import Bank.

Attachment



# IRAQ

## 1991 COUNTRY RISK ASSESSMENT

**RECOMMENDATION:** *TEID has established a final grade of "D" for Iraq and recommends a fiscal 1991 Risk Exposure Guideline of \$200 million. This represents no change from the TEID initial grade and matches the grade given by the Economist Intelligence Unit. TEID recommends that any allocation to Iraq be based on two conditions : 1) Satisfactory resolution of the current government investigation into the Iraqi GSM-102 program, and 2) Indications from Iraq that it intends to pay its EX-IM Bank arrearages.*

### SUMMARY OF RECENT DEVELOPMENTS:

- Diplomatic relations between Iraq and Western countries have deteriorated sharply over the past six months. This has led to a vote in the U.S. Senate Foreign Relations Committee to impose trade sanctions against Iraq. The Bush administration has opposed the measure.
- In direct contrast to the political situation, Iraq's economy shows some signs of improvement. Real GDP grew at an annual rate of 5.5 percent in 1989 and 5.1 percent in 1988.
- USDA/CCC is withholding further credit guarantees from Iraq pending completion of the investigation of possible irregularities in the Iraqi GSM-102 export guarantee program.
- Since 1987, the Export-Import Bank has offered only short-term revolving credit to Iraq. During this period, Iraq has gone into arrearages on several occasions and recently--for the first time--required a payment claim by the EX-IM Bank.

### KEY INDICATORS

|                                    | 1990   | 1991   |
|------------------------------------|--------|--------|
| Population (mil.)                  | 18.9   | 19.6   |
| Per Capita GDP (U.S. \$)           | 2,795  | 2,877  |
| Inflation Rate (%)                 | 37     | 37     |
| Total External Debt (mil. \$)      | 20,229 | 19,181 |
| Debt as a percent of GDP           | 11.6   | 8.3    |
| Debt Service (mil. \$)             | 4,026  | 3,750  |
| Current Acct. Balance (mil. \$)    | 910    | 1,388  |
| Mdse. Trade Balance (mil. \$)      | 4,094  | 4,718  |
| Oil/Total Exports (%)              | 91     | 90     |
| Change in Int'l Reserves (mil. \$) | 1,250  | 1,650  |
| Import Coverage (months)           | 1.2    | 1.3    |
| IMF Credit                         | 0      | 0      |
| GSM Outstanding                    |        |        |
| as of 5/31/90 (mil. \$)            | 1,738  | ---    |

### GRADE & GUIDELINE

|   |                      |
|---|----------------------|
| Rating Models Composite Grade               | D                    |
| Grade Restrictions                          | D                    |
| IMF Quota (mil. \$)                         | 663                  |
| EIU Liquidity Rating                        | D                    |
| <b>FINAL GRADE</b><br>TEID Review Comm.     | <b>D</b>             |
| <b>FY 1991 EXPOSURE</b><br><b>GUIDELINE</b> | <b>\$200 million</b> |

## IRAQ--COUNTRY RISK ASSESSMENT

### BACKGROUND

Iraq is a major oil producing country which borders six countries: Iran, Turkey, Syria, Jordan, Kuwait and Saudi Arabia. The current population is 18.3 million with a relatively high growth rate of 3.5 percent in 1989. The land area is 434,000 sq. km. or slightly larger than twice the size of Idaho. Other than cultivated areas along the Tigris-Euphrates River, the country consists mainly of desert plains and arid mountains. At least 40 percent of the population resides in or near the capital city of Baghdad.

Overall, 12 percent of the land is arable, 9 percent is meadows and pastures, 3 percent is forest and woodland, 1 percent is permanent crops and the remaining 75 percent is classified as desert. Oil and natural gas are the dominant natural resources, accounting for over 90 percent of Iraq's export revenue. Other major industries include textiles and shoes. Modest levels of agricultural exports include barley, cotton, wool and palm dates.

### QUALITATIVE ANALYSIS

Diplomatic relations between Iraq and Western countries have deteriorated sharply over the past six months. The most publicized incidents include the execution of a British-based journalist, the reports that Iraq is trying to build a super-gun for the purpose of delivering chemical or nuclear weapons into Israel or Iran, and the confiscation in Britain of electronic components that allegedly were to be used as triggers for nuclear weapons. In addition, Iraqi President Saddam Hussein has repeatedly threatened to "scorch half of Israel" with chemical weapons if Israel attacked any Arab nation. In view of Hussein's willingness to use chemical weapons in the past--even on his own people--this threat should not be taken lightly.

In response to this situation, the U.S. Senate Foreign Relations Committee recently voted to impose trade sanctions against Iraq as a protest against its "gross violations of internationally recognized human rights". The primary effect of this bill would be to cut off CCC credit guarantees to Iraq. To date, the Bush administration has opposed the measure.

In direct contrast to the political situation, Iraq's economy has shown some signs of improvement. Real GDP grew at an annual rate of 5.5 percent in 1989 and 5.1 percent in 1988. This compares with the previous five-year period when real GDP actually declined by an average annual rate of 5.9 percent. Projected growth of 8.9 percent in 1990 may be overly optimistic due to lower-than-expected oil prices. Inflation continues to be a problem as pent-up demand for consumer goods and limited supplies of basic food commodities have led to a post-war inflation rate of an estimated 30-40 percent. This situation has, in the past, led to widespread civil discontent and the implementation of government-imposed price controls.

The balance of payments situation remains in the critical stage through the short-term as Iraq tries to recover from the eight-year war with Iran. The economic impact of the eight-year war was devastating. War-related costs have been estimated at \$100 billion with another \$37 billion estimated for reconstruction costs. To date, Iraq has focused their reconstruction plans on modernizing their military hardware and on repairing oil export facilities. However, the oil revenues needed to finance their reconstruction efforts reached only \$13.3 billion in 1989, approximately one-half the pre-war level of \$26 billion in 1980.

Iraq's ability to increase their oil revenues is limited. Iraq's production quota within OPEC is 3.14 million barrels a day (b/d). This is well below their expanded capacity of 4.0 million b/d. If Iraq tries to exceed their quota, other OPEC countries will undoubtedly follow suit and depress oil prices even further, thus limiting any increase in oil revenues. An optimistic scenario involving modest increases in both quotas and prices sees Iraq increasing oil revenues by \$1 billion by 1992, well below the amount needed to substantially improve their balance of payments situation.

In the long-term, however, there remains potential for significant improvement in the balance of payments situation due to Iraq's tremendous supply of proven oil reserves. The most recent estimates from the Iraqi oil ministry places proven reserves at 100 billion barrels and probable reserves at another 50 billion barrels. This would put Iraq second behind Saudi Arabia in the amount of oil reserves. Given this situation and the U.S. Department of Energy's projected increases in oil prices over the next five years, Iraq has the potential to reach pre-war levels of \$26 billion in oil revenues by 1994.

The war with Iran, compounded by the decline in oil revenues, forced Iraq to take on extensive overseas borrowing during the past decade. Total external debt increased from \$7.8 billion in 1984 to \$20.2 billion in 1989. This amount does not include an estimated \$25-\$40 billion owed to Arab Gulf states, which Iraq considers as separate "debts in kind". The rise in external debt service obligations, combined with reconstruction cost and \$5 billion in annual military spending, has led to large arrearages over the past few years. This situation eventually led to a series of bilateral rescheduling arrangements with many of its major creditors. Iraq's failure in the past to meet even the rescheduled terms has led to periodic suspensions of renewed disbursements. However, the situation has apparently improved this year as the Iraqi trade minister recently announced the repayment of \$4 billion of foreign debt during the first four months of 1990.

#### EXPORT SITUATION:

Iraq's imports of U.S. agricultural products fell 10 percent in 1989 after two years of dramatic increases in 1988 and 1987. As has been the trend throughout the decade, more than 90 percent of total U.S. agricultural exports to Iraq are directly attributed to the GSM 102 credit guarantee program. Overall, U.S. agricultural exports to Iraq totaled \$726 million in 1989

compared with \$808 million in 1988. This amount ranks them as the 12th largest market for U.S. agricultural products. The two major export commodities remain rice and wheat. Other products include feed grains, soybean oilcake and meal, dairy and poultry, cotton and sugar.

The United States market share of total Iraqi agricultural imports reached 34 percent in 1988 compared with 30 percent in 1987 and 21 percent in 1986. In 1980, U.S. market share was near zero. In 1988, the United States maintained its market share of approximately 80 percent for rice and 24 percent for wheat. The United States also maintained a significant market share for soybean oilcake and meal, dairy and poultry products, corn and sugar in 1988 after significant gains in 1987.

A major consideration with Iraq is their growing dependency on food imports. Iraq has a high population growth rate, very limited supply of arable land, and a low self-sufficiency ratio for food. When compared to other oil exporting countries, Iraq's cereal imports are 234 kilograms per person compared to 159 in Algeria, 108 in Iran and 6 in Nigeria. This represents a tremendous market for food grain exports. However, an important factor in gaining market share in Iraq has been the readiness of exporters to offer credit arrangements. The United States has been able to expand their market share because they have continued to offer GSM 102 credit guarantees.

In a development that requires special note, the U.S. Department of Agriculture and the Commodity Credit Corporation (CCC) initiated an administrative review last October in response to allegations of irregularities in the GSM 102 export credit guarantee program to Iraq. As a result, USDA and CCC decided, after consultations with other NAC agencies, to extend a line of credit guarantees for Iraq using a tiered approach. The first tranche of \$500 million was set with additional credit guarantees for the year to depend upon the results of further investigations. The initial \$500 million was quickly registered. However, CCC has, to date, withheld further credit guarantees to Iraq pending completion of the investigation by U.S. government officials.

#### FUTURE ABILITY TO PAY

Despite continued international pressure, Iraq refuses to seek multilateral negotiations through the Paris Club and instead maintains their policy of confidential bilateral negotiations. This strategy allows Iraq to play the creditors off one another, promise "favored creditor" status to creditors providing expanded credits, and effectively use the threat of default to extort new loans.

Currently, most credit agencies have either declared Iraq "off-cover" or offer only short-term loans on a revolving basis and with strict coverage requirement. Essentially, only three agencies have maintained their "favored creditor" status: CCC, Export-Import Bank, and the U.K. Export Credit Guarantee Department (ECGD). Of these three, the CCC is the only agency that

continues to offer one-to-three year terms on guaranteed credit.<sup>1</sup> Since 1987, the EX-IM Bank has offered only short-term revolving credit with a limit of \$200 million. During this period, Iraq has gone into arrearages on several occasions and recently--for the first time--required a payment claim by the EX-IM Bank. The ECGD has reduced their annual coverage to \$350 million from \$600 million after Iraq built up a series of arrearages and recently requested a bilateral rescheduling agreement.

Two other countries--Turkey and Jordan--offer substantial credit guarantees with Iraq. However, these are direct Central Bank guarantees that are generally repaid through an oil facility. Iraq has oil pipelines that run through both of these countries. Turkey has recently offered \$800 million in new guarantees and loans to be used to pay off more than \$2 billion in arrearages to Turkish contractors. Jordan's agreement involved a bilateral trade agreement worth \$800 million. In addition, it was announced in April that Iraq had repaid approximately \$4 billion in outstanding credits to Japan by transferring 45 percent of its oil earnings directly to Japan. This reportedly opened up the way for the disbursement of an additional \$2 billion in credits dating to agreements signed in 1974 and 1977. Operations with Italy (SACE) and France (Coface) remain suspended.

Based on this analysis, TEID has established a letter grade of D and a FY 1991 Exposure Guideline of \$200 million. The grade of D represents no change from the initial letter grade developed by TEID and matches the letter grade of D given by the Economist Intelligence Unit. The exposure guideline was arrived at through use of the TEID/IMF Quota formula using the IMF Quota of \$660 million, a liquidity grade/ratio of D, and the final letter grade of D. In addition, TEID also recommends that any allocation to Iraq be based on two conditions: 1) Satisfactory resolution of the current government investigation into the Iraqi GSM 102 program, and 2) Indications from Iraq that it intends to pay its EX-IM Bank arrearages.

# IRAQ: FINANCIAL AND ECONOMIC INDICATORS

CALENDAR YEARS 1985-1991, 1990-91 ESTIMATED

DATE: JUNE 1990

| INDICATORS                           | UNITS       | 1985   | 1986   | 1987   | 1988    | 1989   | 1990E  | 1991E  |
|--------------------------------------|-------------|--------|--------|--------|---------|--------|--------|--------|
| <b>DOMESTIC ECONOMIC INDICATORS:</b> |             |        |        |        |         |        |        |        |
| POPULATION                           | MILLIONS    | 15.9   | 16.5   | 17.1   | 17.6    | 18.2   | 18.9   | 19.6   |
| CHANGE IN POPULATION                 | PERCENT     | 3.5    | 3.6    | 3.5    | 3.2     | 3.4    | 3.8    | 3.8    |
| REAL GDP, 1985 \$                    | BIL U.S. \$ | 46.8   | 44.6   | 43.8   | 46.0    | 48.5   | 52.8   | 58.5   |
| CHANGE IN REAL GDP                   | PERCENT     | (9.7)  | (4.7)  | (1.9)  | 5.1     | 5.5    | 8.9    | 6.9    |
| REAL PER CAPITA GDP, 1985 \$         | US \$       | 2,943  | 2,708  | 2,567  | 2,612   | 2,665  | 2,795  | 2,877  |
| CHANGE IN PER CAPITA GDP             | PERCENT     | 20.8   | (8.0)  | (5.2)  | 1.8     | 2.0    | 4.9    | 2.9    |
| <b>ORIGIN OF GDP BY SECTORS:</b>     |             |        |        |        |         |        |        |        |
| AGRICULTURE                          | PERCENT     | 10.4   | 11.5   | 11.6   | 11.4    | 11.1   | 10.4   | 10.0   |
| TOTAL INDUSTRY                       | PERCENT     | 57.3   | 53.2   | 56.8   | 58.1    | 58.7   | 60.2   | 60.0   |
| SERVICES                             | PERCENT     | 32.3   | 35.4   | 31.5   | 30.5    | 30.2   | 29.4   | 30.0   |
| CONSUMER PRICE INDEX (CPI)           | 1985=100    | 100.0  | 125.0  | 168.8  | 244.8   | 359.6  | 510.6  | 699.6  |
| CHANGE IN CPI (INFLATION)            | PERCENT     | 25.0   | 35.0   | 45.0   | 46.9    | 42.0   | 37.0   | 37.0   |
| EXCHANGE RATE                        | (LC/US\$)   | 0.311  | 0.311  | 0.311  | 0.311   | 0.311  | 0.311  | 0.311  |
| <b>DEBT SITUATION:</b>               |             |        |        |        |         |        |        |        |
| TOTAL EXTERNAL DEBT                  | MIL US \$   | 11,535 | 14,372 | 18,863 | 20,705  | 20,899 | 20,228 | 18,181 |
| LONG TERM DEBT                       | MIL US \$   | 7,150  | 9,215  | 12,120 | 13,362  | 13,056 | 11,986 | ---    |
| SHORT TERM DEBT                      | MIL US \$   | 4,385  | 5,157  | 6,743  | 7,343   | 7,843  | 8,243  | ---    |
| IMF CREDIT                           | MIL US \$   | 0      | 0      | 0      | 0       | 0      | 0      | 0      |
| IMF DRAWING QUOTA                    | PERCENT     | 100    | 100    | 100    | 100     | 100    | 100    | 100    |
| TOTAL DEBT SERVICE                   | MIL US \$   | 1,982  | 2,416  | 2,720  | 3,483   | 3,880  | 4,026  | 3,750  |
| PRINCIPAL PAYMENTS                   | MIL US \$   | 1,500  | 2,042  | 2,232  | 2,618   | 2,905  | 3,109  | 2,923  |
| INTEREST PAYMENTS                    | MIL US \$   | 482    | 374    | 488    | 865     | 975    | 917    | 827    |
| <b>DEBT RATIOS</b>                   |             |        |        |        |         |        |        |        |
| TOTAL DEBT/GDP RATIO                 | PERCENT     | 24.6   | 26.5   | 27.6   | 22.8    | 16.5   | 11.6   | 8.3    |
| TOTAL DEBT/EXPORTS                   | PERCENT     | 120.6  | 140.7  | 198.6  | 1,294.6 | 152.5  | 118.6  | 95.0   |
| DEBT PER CAPITA                      | US \$       | 725    | 873    | 1,106  | 1,176   | 1,148  | 1,070  | 977    |
| DEBT SERVICE RATIO (TDS/XGS)         | PERCENT     | 20.7   | 32.0   | 28.6   | 32.5    | 28.3   | 23.6   | 18.6   |
| DEBT SERVICE/GDP RATIO               | PERCENT     | 4.2    | 4.5    | 4.0    | 3.8     | 3.1    | 2.3    | ---    |
| INTEREST SERVICE/GDP RATIO           | PERCENT     | 1.0    | 0.7    | 0.7    | 1.0     | 0.8    | 0.5    | ---    |
| CONCESS CREDIT RATIO                 | PERCENT     | ---    | ---    | ---    | ---     | ---    | ---    | ---    |
| VARIABLE CREDIT RATIO                | PERCENT     | ---    | ---    | ---    | ---     | ---    | ---    | ---    |

SOURCE: TRADE AND ECONOMIC INFORMATION DIVISION/FAF

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# IRAQ: FINANCIAL AND ECONOMIC INDICATORS

CALENDAR YEARS 1985-1991, 1990-91 ESTIMATED

DATE: JUNE 1990

| INDICATORS                           | UNITS   | 1985     | 1986    | 1987    | 1988    | 1989     | 1990E    | 1991E    |
|--------------------------------------|---------|----------|---------|---------|---------|----------|----------|----------|
| <b>BALANCE OF PAYMENTS:</b>          |         |          |         |         |         |          |          |          |
| CURRENT ACCOUNT BALANCE              | MIL \$  | (3,688)  | (3,542) | (422)   | (1,146) | (204)    | 910      | 1,388    |
| TRADE BALANCE                        | MIL \$  | (488)    | (942)   | 2,400   | 1,655   | 2,823    | 4,084    | 4,718    |
| MERCH. EXPORTS                       | MIL \$  | 9,563    | 7,558   | 9,500   | 10,638  | 13,707   | 17,061   | 20,190   |
| OIL                                  | PERCENT | ---      | ---     | 93.0    | 92.0    | 91.0     | 91.0     | 90.0     |
| NON-OIL                              | PERCENT | ---      | ---     | 7.0     | 8.0     | 9.0      | 9.0      | 10.0     |
| MERCH. IMPORTS                       | MIL \$  | (10,051) | (8,500) | (7,100) | (8,383) | (10,884) | (12,967) | (15,472) |
| GOOD & SERVICE CREDIT                | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| GOOD & SERVICE DEBIT                 | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| NET TRANSFER PAYMENTS                | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| PRIVATE TRANSFERS                    | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| OFFICIAL TRANSFERS                   | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| CAPITAL ACCOUNT                      | MIL \$  | 1,909    | 2,065   | (381)   | 1,145   | 204      | (651)    | (2,923)  |
| M & LT DEBT INFLOW                   | MIL \$  | 3,409    | 4,107   | 1,851   | 3,153   | 2,599    | 2,038    | 0        |
| PRINCIPAL REPAYMENTS                 | MIL \$  | 1,500    | 2,042   | 2,232   | 2,618   | 2,905    | 3,109    | 2,923    |
| NET INVESTMENT                       | MIL \$  | 0        | 0       | 0       | 0       | 0        | 0        | 0        |
| USE OF IMF CREDIT                    | MIL \$  | 0        | 0       | 0       | 0       | 0        | 0        | 0        |
| OTHER CAPITAL INFLOW                 | MIL \$  | 0        | 0       | 0       | 610     | 510      | 410      | 0        |
| CHANGE IN INTERNATIONAL RESERVES     | MIL \$  | 400      | (300)   | 0       | 0       | 0        | 250      | 400      |
| <b>TOTAL INTERNATIONAL RESERVES:</b> |         |          |         |         |         |          |          |          |
| NON-GOLD                             | MIL \$  | 1,300    | 1,000   | 1,000   | 1,000   | 1,000    | 1,250    | 1,650    |
| GOLD                                 | MIL \$  | ---      | ---     | ---     | ---     | ---      | ---      | ---      |
| IMPORT COVERAGE RATIO                | MONTHS  | 1.6      | 1.4     | 1.7     | 1.3     | 1.1      | 1.2      | -1.3     |
| FINANCING REQUIREMENT                | MIL \$  | (5,188)  | (5,584) | (2,654) | (3,764) | (3,109)  | (2,199)  | (1,535)  |
| CURRENT ACCOUNT BALANCE              | MIL \$  | (3,688)  | (3,542) | (422)   | (1,146) | (204)    | 910      | 1,388    |
| PRINCIPAL REPAYMENTS                 | MIL \$  | 1,500    | 2,042   | 2,232   | 2,618   | 2,905    | 3,109    | 2,923    |

SOURCE: TRADE AND ECONOMIC INFORMATION DIVISION/FAS

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